

## **Fiduciary\_Training**

### ***Slide 1: Roles and Responsibilities***

Welcome to a training about your roles and responsibilities as a MnSCU fiduciary. My name is Derek Hughes – System Director for Compensation and Retirement, and I will be narrating.

### ***Slide 2: How to Use Presentation***

This training format provides many features.

You may want to visit the attachments tab in the upper right corner for further information, policies, and laws surrounding retirement.

At the bottom you can navigate the audio and rewind within the slide, and on the left you can navigate to any slide in the entire training.

In the upper left corner, you may want to click the notes tab to read along with the narration.

### ***Slide 3: Overview***

This training is broken into four parts. You will learn more about:

The background and purpose for this training

The definition of a fiduciary

What it means to be a MnSCU fiduciary, and

The duties and conduct expected of a MnSCU fiduciary

## ***Slide 4: Part 1: Background & Purpose***

Part one – the background and purpose for this training.

## ***Slide 5: Quick Start***

Let's begin with a quick start to ensure everyone is up to speed on MnSCU Retirement Plans.

Defined Benefit plans are guaranteed benefits known as pensions. They payout to an employee at retirement using a calculation that increases with more years of service to the system, or longevity.

Defined Contribution plans are comprised of a variety of investment funds. Employees invest within the funds using contributions made by both the employee and employer.

## ***Slide 6: Defined Benefit Plans***

46% of MnSCU employees participate in defined benefit plans. These defined benefit plans are administered by different state agencies.

Each defined benefit plan has a separate board and set of fiduciaries, and consequently they are not the primary focus of this training. MnSCU fiduciary responsibility primarily focuses upon the defined contribution plan.

### ***Slide 7: Defined Contribution Plan***

The defined contribution plan is commonly referred to as IRAP – short for the Individual Retirement Account Plan. A defined contribution plan is not a pension or formula. The defined contribution plan provides a spectrum of high performing and low fee funds for employees to invest their contributions. Employees invest contributions of 4.5% of salary, and the employer matches with 6% of the employee's salary.

### ***Slide 8: Policy***

Fiduciary status is a matter of MnSCU board policy. Fiduciary duty is fully explained in MnSCU board policy 1C.4, which addresses your fiduciary duty for the system pension plans.

### ***Slide 9: Board Role under Policy***

The Board of Trustees is responsible for oversight of the pension plans administered by the system. Specifically, the board approves contracts for the defined contribution plan administration.

### ***Slide 10: MnSCU Retirement Size & Scope***

The size and scope of MnSCU Retirement is far reaching. The chart shows percentages of MnSCU employees in the defined benefit plans (TRA, MSRS, and PERA), the ineligible employees, and MnSCU's defined contribution plan (or IRAP). Below the chart is a table showing respective headcount associated with each plan. As shown by the purple pie slice, IRAP comprises 43.0% of all MnSCU retirement contributors at a total of \$2 billion dollars in invested contributions.

### ***Slide 11: Part 2: Fiduciary Defined***

Part two – the fiduciary defined

### ***Slide 12: Fiduciary***

It is the responsibility of each fiduciary to make reasonable efforts and to obtain the knowledge and skills necessary to adequately perform responsibilities under MnSCU policy. The next slides establish standards and guidelines for you to fulfill your fiduciary responsibilities in the administration of system pension plans.

### ***Slide 13: What is a fiduciary?***

What is a fiduciary?

A fiduciary duty is a legal duty to act solely in another party's interests. Fiduciaries may not profit from their relationship. They also have a duty to avoid any conflicts of interest to their role. A fiduciary duty is the strictest duty of care recognized by the US legal system.

***Slide 14: Who has a fiduciary role?***

Who has a fiduciary role?

An individual trustee

The Board of Trustees acting in its official capacity, and

Employees delegated responsibility under this policy

All three have a fiduciary role within MnSCU.

***Slide 15: Part 3: MnSCU Fiduciary Defined***

Part three – the MnSCU fiduciary defined

***Slide 16: Defined Contribution Plan Regulatory Model***

The defined contribution plan has a model for changes and decisions. The Board of Trustees has plan oversight. Suggestions for plan changes and investment improvements travel in either

direction on the continuum; however, decisions are made by the Investment Committee and upwards through the chain of command. The final plan document is a legal document submitted to the IRS for plan approval.

### ***Slide 17: Board Responsibility***

Let's take a closer look at individual fiduciary responsibilities within the defined contribution plan. The Board is responsible for oversight. Specifically, this means the Board approves contract awards for:

A system pension plan administrator, also known as a record keeper, and

An investment advisor to regularly review and advise upon the fund lineup and performance of the plan.

### ***Slide 18: Chancellor Responsibility***

The Chancellor is responsible for delegation of authority and fiduciary education. The Chancellor:

Appoints Investment Committee Members, and

Ensures education is provided to fiduciaries and Advisory Committee Members on an annual basis

### ***Slide 19: Investment Committee***

The Investment Committee is comprised of:

The Vice Chancellor for Finance, and

The Vice Chancellor for Human Resources

The Investment Committee is responsible for:

Submission of legal documents to the IRS, or other regulatory bodies

Contract negotiation for the record keeper and investment manager

Administration of system pension plans

### ***Slide 20: Advisory Committee***

The Advisory Committee is comprised of:

At least seven to nine members that are current employees representing each affected bargaining group and personnel plan

The Advisory Committee is responsible for:

Advising the Investment Committee about structure and operation of plans

Consulting industry experts on the investment menu offered, and

Advising the Investment Committee on the administration of the plans

### ***Slide 21: Part 4: Fiduciary Duty & Conduct***

Part 4 – fiduciary duty and conduct.

### ***Slide 22: Who am I accountable to as a fiduciary?***

Who am I accountable to as a fiduciary?

As a fiduciary you have a fiduciary duty to system stakeholders which includes:

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Beneficiaries– or the active, deferred, and retired members of the system pension plans

Taxpayers - who help to finance the system pension plans, and

The State of Minnesota - which established the system pension plans

### ***Slide 23: Who do I serve as a Fiduciary?***

Who do I serve as a fiduciary?

As a plan fiduciary you have a duty of loyalty.

You must be loyal to the exclusive benefit of our members and their beneficiaries.

This duty also prohibits you from personally profiting from your role

### ***Slide 24: Prohibited Personal Profit (examples)***

Examples of items that are prohibited if they result in personal profit include:

Compensation

Fees

Gifts (above nominal value), and

Personal gain resulting from investment management



## ***Slide 25: How do I act as a fiduciary?***

How do I act as a fiduciary?

A fiduciary has an accountability to the plan stakeholders to act prudently. The prudent person standard outlines these accountabilities:

Each fiduciary acts in good faith

Exercises a degree of judgment and care under the prevailing circumstances

Acts with the same prudence, discretion, and intelligence as they would in the management of their own affairs

Considers the safety of the plan capital as well as the return on investment

## ***Slide 26: Quote***

In a landmark case of fiduciary breach the court acknowledged in its ruling that:

“The test of prudence is one of conduct and not a test of the result of performance of the investment. The focus of the inquiry is how the fiduciary acted in his/her selection of the investment and not whether his/her investment succeeded or failed.”

## ***Slide 27: Indemnification***

Every MnSCU fiduciary, advisory committee member, or other employee with responsibilities delegated for managing the plan is entitled to indemnification from liability for fiduciary breaches.

Additionally, they are held harmless from reasonable costs or expenses incurred as a result of any actual or threatened litigation or other proceedings.

***Slide 28: Summary***

In summary, as a board member and fiduciary you serve MnSCU's members, beneficiaries, and stakeholders. You are caring for their assets and their retirement when they are able to retire.

This role is the highest duty imposed by law and you have the primary duties of prudence and loyalty all while acting within the scope of the law. If you have any questions on these responsibilities, please contact the MnSCU Office of General Counsel.

Thank you very much for your time and attention to this important matter.